

P O W E R   P R O G R A M



# Third Quarter Report

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In April, the U.S. Senate confirmed President Clinton's appointment of Johnny H. Hayes to serve a second term on the TVA Board of Directors through May 19, 2005. This will allow the current Board to finish the job it started with an experienced team that understands the competitive issues and challenges facing TVA in a restructured electric utility industry.

The Fort Payne Improvement Authority, a distributor of TVA power since 1938, signed a 15-year contract to purchase power from TVA. The decision by the Fort Payne Improvement Authority and the city of Fort Payne to continue their partnership with TVA illustrates their confidence in TVA's future and the future of public power.

TVA also received a vote of confidence from the citizens of the Tennessee Valley, 97 percent of whom indicated in a recent survey that TVA should continue to provide the services of flood control, navigation, land and water management, and resource development and recreation.

TVA continued its operational excellence during the third quarter. TVA's Watts Bar Nuclear Plant successfully completed its first year of commercial operation on May 27, operating at an 84 percent capacity factor to exceed both the industry average of 65 percent and the TVA goal of 73 percent. And TVA's Johnsonville Fossil Plant Unit 3 broke the national record for continuous power generation by a fossil plant on May 29 by generating 1,216,000 megawatt hours of power over 612 consecutive days.

Due to unseasonably mild weather throughout the region since January, TVA incurred a net loss of \$176 million for the nine month period ending June 30, 1997, compared with a net income of \$84 million for the same period of 1996. TVA has initiated a cost-reduction plan during the remainder of the fiscal year

and anticipates that these actions, coupled with a return to normal summer temperatures, will offset this income shortfall.

More positively, net cash from operations improved \$36 million for the nine month period ending June 30, 1997, compared to the same period last year. In addition, TVA's total debt declined by over \$350 million for the nine months ending June 30, 1997.

TVA is dedicated to leading the industry in finding innovative ways of balancing the public's interests with the benefits of free market competition. And we will continue to reduce our costs, improve operating efficiencies, and work with our customers to meet their changing needs to ensure that we remain competitive as the marketplace evolves.

Sincerely,



Craven Crowell

#### Financial Highlights (millions)

<i>Nine Months Ended June 30</i>	<i>1997</i>	<i>1996</i>
Operating revenues	\$ 3,979	\$ 4,187
Operating expenses	(2,646)	(2,634)
Operating income	1,333	1,553
Other expense, net	(5)	(1)
Interest expense	(1,504)	(1,468)
<b>Net (loss) income</b>	<b>\$ (176)</b>	<b>\$ 84</b>

#### Sales of Electricity (millions - kWh)

<i>Nine Months Ended June 30</i>	<i>1997</i>	<i>1996</i>
Municipalities and cooperatives	81,923	85,871
Industries directly served	12,736	12,383
Federal agencies	6,033	4,846
<b>Total sales of electricity</b>	<b>100,692</b>	<b>103,100</b>

## RESULTS OF OPERATIONS

TVA net loss for the three months ended June 30, 1997 was \$106 million, as compared with a \$66 million loss for the same period of 1996. TVA has incurred a net loss of \$176 million for the nine month period ended June 30, 1997, as compared with net income of \$84 million for the same period of 1996.

### Operating Revenues

Operating revenues for the three months ended June 30, 1997, and 1996 were \$1,265 and \$1,373, respectively, for a decline of \$108 million. Sales of electric energy declined approximately 5 percent from 33.9 billion kilowatt-hours for the three months ended June 30, 1996, to 32.3 billion kilowatt-hours for the same period this year. Operating revenues for the fiscal year-to-date declined \$208 million from \$4,187 in 1996 to \$3,979 in 1997. Kilowatt-hour sales declined approximately 2 percent from 103.1 billion kilowatt-hours in 1996 to 100.7 billion kilowatt-hours in 1997. The decreases in both revenues and kilowatt-hour sales result from mild weather experienced during fiscal year 1997 as compared to last year.

### Operating Expenses

Operating expenses declined \$80 million from \$945 million for the three months ended June 30, 1996 to \$865 million for the same period of 1997. This decline in third quarter operating expenses resulted from greater availability of low-cost nuclear generation and the implementation of cost reduction initiatives during 1997. Operating expenses for the nine months ended June 30, 1997 increased \$12 million from \$2,634 million in 1996 to \$2,646 million in 1997. The operation of the Watts Bar and Browns Ferry 3 nuclear units during the entire nine month period ended June 30, 1997 resulted in higher depreciation and operating expenses during 1997, however, these expenses were primarily offset by lower net fuel and purchased power expense as compared to 1996 due to the increased nuclear power generation and lower power sales.

### Interest Expense

Net interest expense increased \$5 million and \$36 million for the three months and nine months ended June 30, 1997, respectively, as compared to the same periods of 1996. These increases resulted primarily from lower capitalized interest of \$7 million and \$32 million for the three month and nine month periods, respectively, reflecting a decrease in the level of construction work in progress.

## FINANCIAL POSITION

Net cash provided by operations of \$154 million during the three month period ended June 30, 1997 was essentially unchanged from the same period of 1996. Net cash from operations improved \$36 million for the nine months ended June 30, 1997 as compared to the same period last year.

Construction spending declined by \$74 million (31%) and \$345 million (41%) for the three months and nine months ended June 30, 1997, as compared to the same periods last year. These reductions are the result of the decline of TVA's nuclear construction program and the implementation of cost reduction initiatives.

TVA's total outstanding debt remained essentially unchanged during the three months ended June 30, 1997, however, total debt declined \$356 million for the nine month period ended June 30, 1997.

## Balance Sheets *(Unaudited)*

ASSETS	June 30 1997	September 30 1996
	(MILLIONS)	
<b>Current assets</b>		
Cash and cash equivalents	\$ 218	\$ 238
Accounts receivable	581	680
Inventories and other, at average cost		
Fuel	137	110
Other	290	278
Total current assets	<u>1,226</u>	<u>1,306</u>
<b>Property, plant, and equipment</b>		
Completed plant	28,335	27,955
Less accumulated depreciation	<u>(7,148)</u>	<u>(6,553)</u>
Net completed plant	21,187	21,402
Construction in progress	770	744
Deferred nuclear generating units	6,303	6,293
Nuclear fuel and capital lease assets	<u>1,049</u>	<u>1,082</u>
Total property, plant, and equipment	<u>29,309</u>	<u>29,521</u>
<b>Investment funds</b>	<b>499</b>	440
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	115	319
Debt issue and reacquisition costs	1,105	1,162
Other deferred charges	<u>1,217</u>	<u>1,281</u>
Total deferred charges and other assets	<u>2,437</u>	<u>2,762</u>
<b>Total assets</b>	<b><u>\$33,471</u></b>	<b><u>\$ 34,029</u></b>
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 386	\$ 392
Accrued liabilities	143	187
Accrued interest	454	498
Discount notes	3,071	1,774
Current maturities of long-term debt	<u>250</u>	<u>2,250</u>
Total current liabilities	<u>4,304</u>	<u>5,101</u>
<b>Other liabilities</b>	<b>1,803</b>	1,580
<b>Long-term debt</b>		
Public bonds—senior	19,756	19,403
Federal Financing Bank—senior	3,200	3,200
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(498)</u>	<u>(383)</u>
Total long-term debt	<u>23,558</u>	<u>23,320</u>
<b>Proprietary capital</b>		
Appropriation investment	593	608
Retained earnings reinvested in power program	<u>3,213</u>	<u>3,420</u>
Total proprietary capital	<u>3,806</u>	<u>4,028</u>
<b>Total liabilities and     proprietary capital</b>	<b><u>\$33,471</u></b>	<b><u>\$ 34,029</u></b>

## Statements of Income *(Unaudited)*

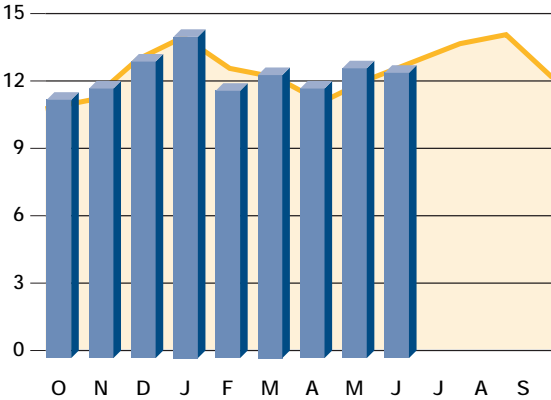
	Three Months Ended June 30		Nine Months Ended June 30	
	1997	1996	1997	1996
	(MILLIONS)		(MILLIONS)	
<b>Operating revenues</b>				
Sales of electricity				
Municipalities and cooperatives	\$ 1,092	\$ 1,195	\$ 3,442	\$ 3,662
Industries directly served	113	114	340	338
Federal agencies	39	41	136	121
Other	<u>21</u>	<u>23</u>	<u>61</u>	<u>66</u>
Total operating revenues	<b>1,265</b>	1,373	<b>3,979</b>	4,187
<b>Operating expenses</b>				
Fuel and purchased power, net	262	313	817	943
Operating and maintenance	291	342	894	890
Depreciation and amortization	245	227	733	611
Tax-equivalents	<u>67</u>	<u>63</u>	<u>202</u>	<u>190</u>
Total operating expenses	<b>865</b>	945	<b>2,646</b>	2,634
<b>Operating income</b>	<b>400</b>	428	<b>1,333</b>	1,553
Other income (expense), net	<u>(6)</u>	<u>1</u>	<u>(5)</u>	<u>(1)</u>
Income before interest charges	394	429	1,328	1,552
<b>Interest expense</b>				
Interest on debt	500	492	1,497	1,472
Amortization of debt discount, issue, and reacquisition costs, net	20	30	69	90
Allowance for funds used during construction	<u>(20)</u>	<u>(27)</u>	<u>(62)</u>	<u>(94)</u>
Net interest expense	<b>500</b>	495	<b>1,504</b>	1,468
<b>Net (loss) income</b>	<b>\$ (106)</b>	\$ (66)	<b>\$ (176)</b>	\$ 84

## Statements of Cash Flows *(Unaudited)*

<b>Cash flows from operating activities</b>				
Net (loss) income	\$ (106)	\$ (66)	\$ (176)	\$ 84
Items not requiring cash	309	289	910	750
Other changes, net	<u>(49)</u>	<u>(63)</u>	<u>(38)</u>	<u>(174)</u>
Net cash provided by operations	<b>154</b>	160	<b>696</b>	660
<b>Cash flows from investing activities</b>				
Construction expenditures	(164)	(238)	(495)	(840)
Allowance for funds used during construction	20	27	62	94
Other, net	<u>160</u>	<u>(127)</u>	<u>119</u>	<u>(258)</u>
Net cash provided by (used in) investing activities	<b>16</b>	(338)	<b>(314)</b>	(1,004)
<b>Cash flows from financing activities</b>				
Borrowings, net	42	772	(356)	927
Other	<u>(16)</u>	<u>(15)</u>	<u>(46)</u>	<u>(47)</u>
Net cash provided by (used in) financing activities	<b>26</b>	757	<b>(402)</b>	880
<b>Net change in cash and cash equivalents</b>	<b>\$ 196</b>	\$ 579	<b>\$ (20)</b>	\$ 536

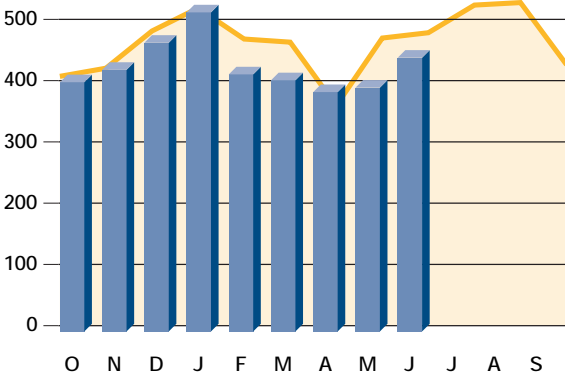
# Total TVA Generation

billions of kwh



# Total Electric Revenue

millions of dollars



# Average Revenue

cents per kwh

